

FISCAL NOTE
HB 41 - SB 41
FIRST EXTRAORDINARY SESSION

April 12, 1999

SUMMARY OF BILL: Repeals the Hall income tax. Imposes a 3% tax on the federal adjusted gross income of all income derived from sources in Tennessee. Authorizes a standard personal exemption of \$4,000 per individual. Individuals filing a state income tax return would be allowed one exemption for \$4,000. Taxpayers filing jointly would be allowed two exemptions, for \$4,000 each. An additional personal exemption of \$4,000 would be allowed for each dependent claimed. Requires a couple to file their state income tax return in the same manner as they file their federal income tax return. The bill also provides a taxpayer credit for income taxes accrued to another state. The tax credit derived from income tax accrued to another state would not be allowed to exceed the income tax due in Tennessee. Additionally, the allowable tax credit would not include any accrued interest or penalties owed another state because of back taxes due. The credit for taxes owed to another state must be taken in the year in which they accrue. Non-resident individuals would be liable for the payment of this tax for any income the individual has received from sources within this state. The bill further mandates employers to withhold 3% of any employee's wages paid at the same time and in the same manner as amounts are withheld for federal tax purposes. Requires any employer required to withhold wages to register with the Department of Revenue by July 1, 1999. Any employer who fails to register by October 1, 1999, would be subject to a penalty up to \$1,000. Bill would require state income tax returns to be filed on or after April 15 of each year. Lowers the general state sales, use, lease, services and interstate telecommunications tax from 6.0% to 5.5%. Increases the reimbursement of local property taxes from \$18,000 to \$25,000 that is paid to property owners over the age of 65 and having an income of less than \$10,550. The income limit is also raised from \$10,550 to \$15,000. Revenues generated under this bill would be for the purpose of funding improvements to public education, replacing revenues decreased by reducing the sales tax and the Hall income tax and providing funds for property tax relief for local governments. Sixty-six percent of the revenue would be designated in the General Fund for education purposes. The remaining one-third of the revenues would be distributed as follows:

- 1) 24.24% of the 33% would be distributed among the incorporated municipalities and counties of the state as follows: a) The first \$35,000,000 would be distributed in the same ratio as each county or city received from the last distribution of the Hall income tax; b) 10.55% would be distributed to incorporated municipalities in the same manner as under the Retailer's Sales Tax Act; and c) All other remaining revenues would be divided equally between the cities and counties, and each municipality would receive a percentage based upon the ratio of its population to the aggregate populations of all cities in the state, and each county would received a percentage based upon the ratio of its population to the aggregate population of all counties.
- 2) The remaining 75.76% of the 33% would be distributed to the state fund as follows: a) 36.25% to the Education Trust Fund of 1992; b) 5.12% to the Sinking Fund; and c) 34.39% to the General Fund.

The bill would take effect January 1, 2000. The provisions lowering the sales and use taxes would become effective July 1, 2000. The employer registration provision would take effect on July 1, 1999. The provisions changing reimbursement for elderly and disabled low-income homeowners would take effect upon becoming law.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact- \$1,076,827,990 FY00
Net Impact -\$1,789,980,980 FY01

Increase State Expenditures - \$5,756,500/Property Tax Subsidies
Exceeds \$3,000,000 Recurring/Dept. of Revenue
Exceeds \$2,000,000 One-Time/Dept. of Revenue

Decrease Local Govt. Revenues - \$33,187,500 FY00
\$69,000,000 FY01

Estimate assumes the following:

- Based on information provided by the Department of Revenue, the Comptroller's Office and 1996 federal data, taxable income of Tennessee residents would generate approximately \$2,264,280,980.
- Eliminating the Hall income tax would result in an estimated annual revenue loss of approximately \$177,000,000 in FY00 and \$184,000,000 in FY01.
- The decrease in state sales tax by 0.5% is estimated to decrease state revenues by approximately \$359,300,000 in FY01.
- The net increase in state revenues for FY00 would be calculated as follows:
 $[(2,264,280,980/2) - ((177,000,000/2) \cdot .6250)] = \text{approximately } \$1,076,827,990.$
- The net increase in state revenues for FY01 would be calculated as follows:
 $[2,264,280,980 - (184,000,000 \cdot .6250) - 359,300,000] = \text{approximately } \$1,789,980,980.$
- The increase in state expenditures is estimated to exceed \$10,756,500, of which \$5,756,500 is for property tax subsidies to elderly and disabled homeowners and the remaining amount exceeding \$5,000,000 are costs for implementation of a new tax structure.
- The decrease in local government revenues for FY00 resulting from the elimination of the Hall income tax would be calculated as follows:
 $[(177,000,000/2) \cdot .3750] = \$33,187,500.$
- The decrease in local government revenues for FY01 resulting from the elimination of the Hall income tax would be calculated as follows:
 $[184,000,000 \cdot .3750] = \$69,000,000$
- Hall income tax is apportioned 5/8ths to the state and 3/8ths to local governments.
- The impact for FY00 represents six months of tax collections.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James A. Davenport". The signature is fluid and cursive, with the first name "James" being the most prominent.

James A. Davenport, Executive Director